

The Challenges Facing The Small & Medium Industry Equity Investment Scheme (SMIEIS)

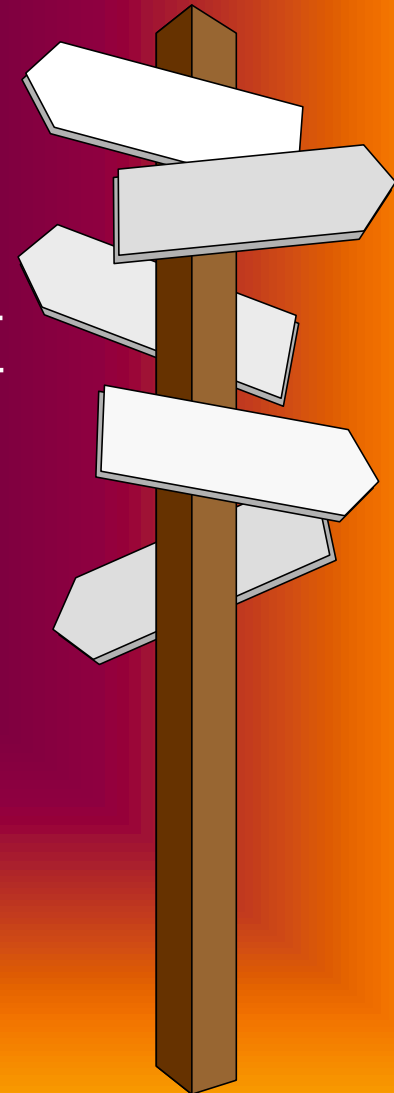
– The First Bank Experience

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Outline

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Introduction



- This is an experience-sharing forum
- SMEs, the engine of growth

Aspects of SMIEIs



- SMIEIS is a voluntary scheme of the Bankers' Committee
- All licensed banks in the country to set aside 10% of PBT for equity investment in SMEs
- Principal aims:
 - to stimulate economic growth and development;
 - develop local technology; and
 - generate employment
- 80 participating banks contributed N13.1 billion to the scheme as at first quarter 2003;
- Banks have so far invested N1.9 billion in about 36 projects under the scheme.

Aspects of SMIEIs (cont. II)



■ Permitted businesses:

- Agro-allied;
- IT & telecommunications;
- Manufacturing;
- Educational establishment;
- Services (excluding banking & insurance);
- Tourism & leisure;
- Solid Minerals;
- Construction; and
- Any other activities that may be decided by the committee.

Aspects of SMIEIs (cont. III)



■ Prohibited businesses:

- ➡ Tobacco & tobacco products;
- ➡ Armaments production;
- ➡ Turnover derived from military related purposes;
- ➡ Alcoholic beverages;
- ➡ Casino or companies with income derived from gambling;
- ➡ Speculative investments in real estate/commodities;
- ➡ Banking, insurance/financial services;
- ➡ Immoral/illegal activities; and
- ➡ Investments which endanger the environment.

Aspects of SMIEIs (cont. IV)



■ Eligibility criteria:

- Maximum asset base of N200 million excluding land and working capital;
- Minimum of 10 employees and maximum of 300;
- Registration with the Corporate Affairs Commission (CAC) and compliance with Companies and Allied Matters Act (1990);
- Compliance with all applicable tax laws and regulations;
- Judicious usage of funds granted under SMIEIS;
- Transparency of and access to books of accounts;
- Provision of monthly financial and operational report to the investing banks before the middle of the next succeeding month; and
- Keeping of current records on the company's activities under the scheme.

Practical Issues In SME Financing



- The following practical problems confront the financing of SMEs in the country:
 - Low level of entrepreneurial skills;
 - Low equity participation;
 - Low return on investment;
 - Lack of succession planning;
 - Problems of integrity and transparency;
 - Multiplicity of policies/regulatory measures;
 - Societal/attitudinal problems;
 - Lack of raw materials and inadequate information base;
 - Exchange rate volatility; and
 - Low level of literacy

⇒ **All these problems lead to high mortality rates.**

First Bank Experience With SMEs



- The Bank has a chequered history in SMEs financing;
- Served as a participating bank in various financing schemes in the mid-80s to early 90s:
 - World Bank SME loan scheme;
 - African Development Bank Export Stimulation Loan (ADB/ESL) Scheme;
 - CBN Rediscounting and Re-financing Facility (RRF);
 - National Economic Reconstruction Fund (NERFUND); and
 - The Graduate Employment Loan Scheme initiated by the National Directorate of Employment (NDE).

First Bank Experience With SMEs (cont. II)



- The Bank decided on a 2-pronged approach under the SMIEIS scheme:
 - Under the first approach, the Bank committed N1 billion to Capital Alliance Nigeria (CAN) for private equity placement in SMEs over the next five (5) years; and
 - The second approach is direct: we have set up a private equity company, **First Funds Limited (FFL)**, to disburse the balance of the funds set aside for the scheme.

First Bank Experience With SMEs (cont. III)



- First Funds Limited is focussing on three categories of SMEs:
 - ➡ Those that were originally financed by the Bank under the various schemes prior to SMIEIs;
 - ➡ Those SMEs that have been existing on their own or financed by other banks; and
 - ➡ Start-ups.
- So far, we have received 23 SME applications totalling over N1 billion.

First Bank Experience With SMEs (cont. IV)



- Shortcomings which characterise applications received by FFL:
 - Ignorance;
 - Wrong perception about the scheme;
 - Lack of requisite knowledge;
 - Fear of loss of control;
 - Inability to package bankable proposals;
 - Poor accounting/record keeping;
 - “Me-too” syndrome;
 - Over bloated business proposals;
 - Exaggerated/defective asset revaluation; and
 - Defective management structure

The Way Forward



- Imperatives going forward:
 - Business environment;
 - Need for an aggressive thrust;
 - Adequate publicity and visibility;
 - Need to improve on the public perception of the scheme;
 - Closer monitoring of projects;
 - Effective coordination of the scheme;
 - Access to Information Technology; and Capacity Building;
 - Regulation and penalties.

Conclusion



- Our experience in First Bank with SME financing is that, with properly structured approach and commitment, SMEs could be profitable;
- Given the right focus, therefore, the SMI EIS initiative could provide the fillip required to jump-start economic development in the country;
- Put in place frameworks, which help to increase the rate of survival and growth in the sub-sector;
- The time-line for achieving this goal is possible over the medium term;
- Government must wake up to the necessity for the elaboration of a national model for entrepreneurship support and development of private small and medium-sized firms.

The End

Thank you for your

